



EUROPEAN STABILITY MECHANISM

January 2023



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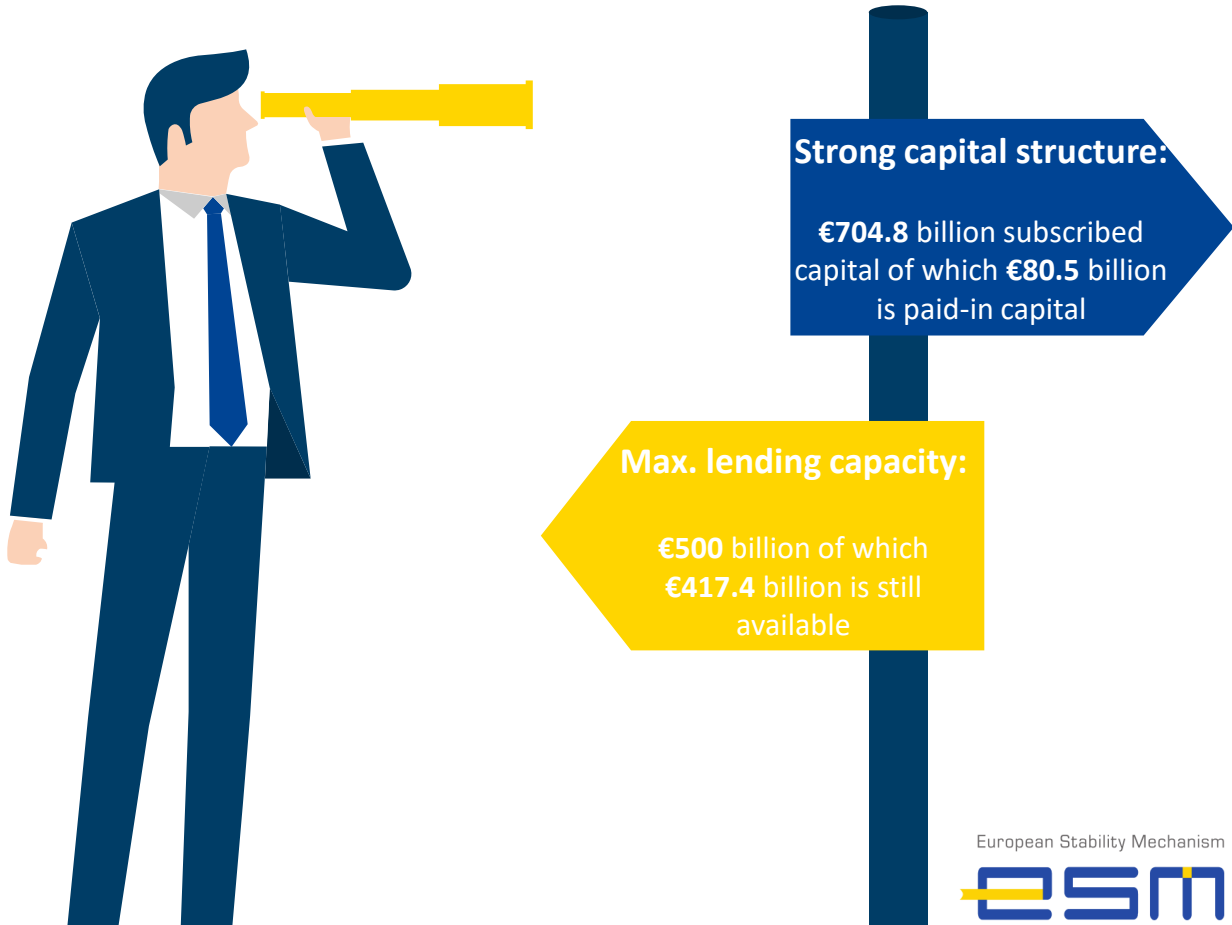


ESM MANDATE



1

THE ESM IS THE CRISIS PREVENTION AND RESOLUTION MECHANISM OF THE EURO AREA



Financial assistance

The ESM provides financial assistance to euro area countries experiencing or threatened by severe financing problems, through raising financing on debt capital markets

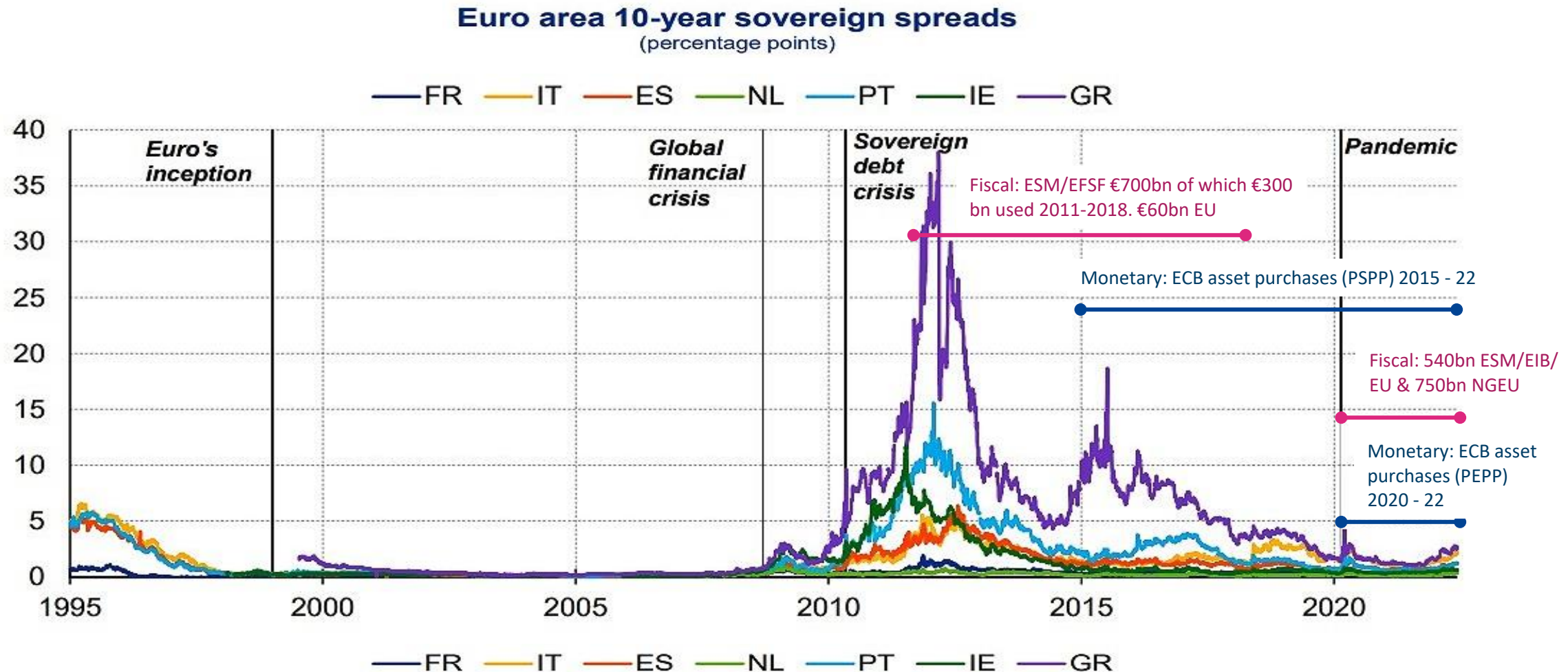
Crisis prevention and market trust

ESM supports market stability and confidence through strong market presence and the existence of its diversified toolkit

Enhanced mandate*

Common backstop to the SRF and a stronger role in designing and monitoring future programmes

UNITED FISCAL AND MONETARY RESPONSE MADE EURO AREA STRONGER AND CALMED DOWN MARKETS



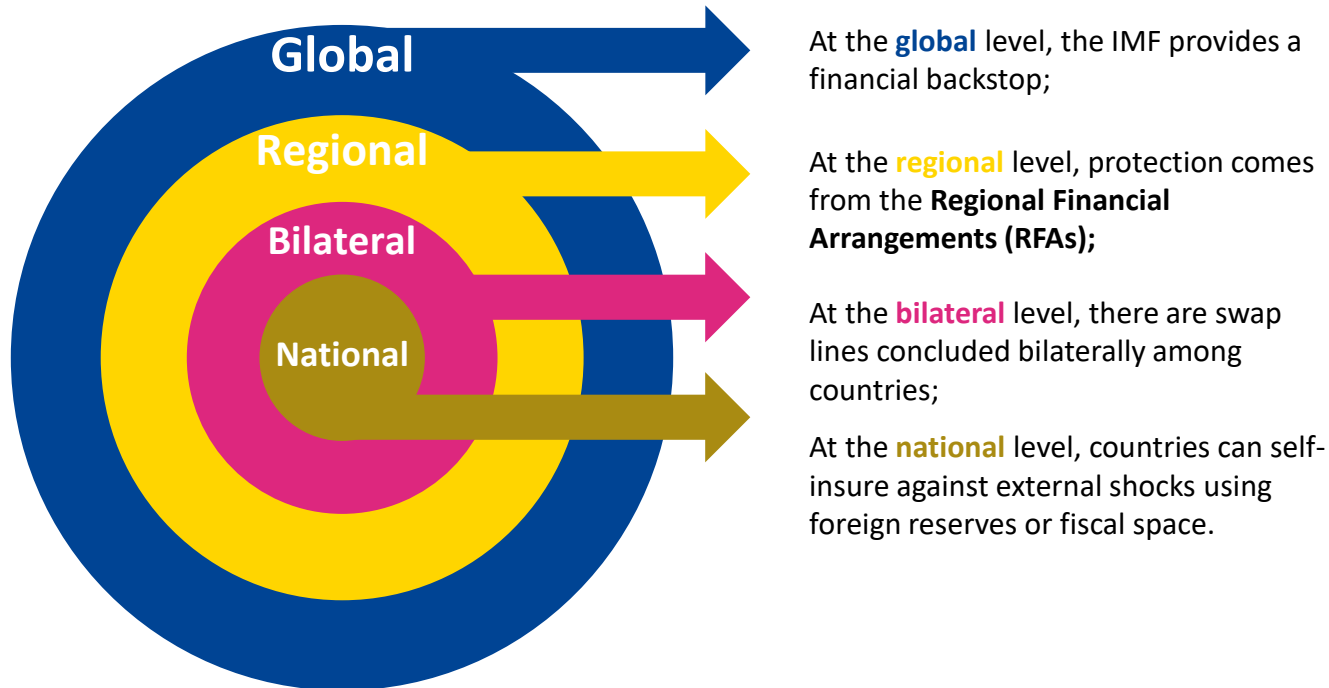
ESM WITHIN THE EUROPEAN FINANCIAL ARCHITECTURE



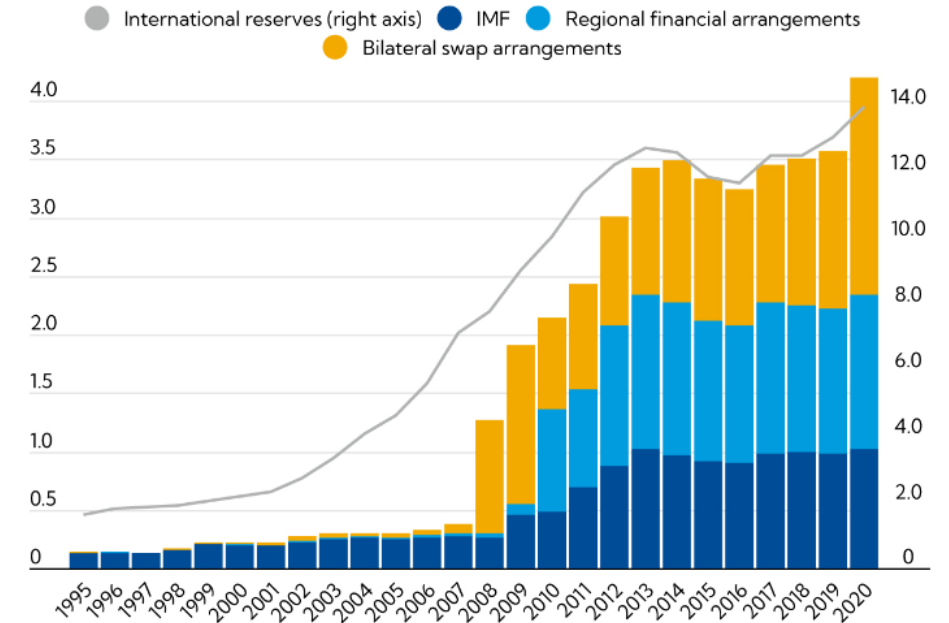
* Ratification of the Amending Agreement to the ESM Treaty ongoing

THE ESM IN THE MULTILATERAL CONTEXT: THE GLOBAL FINANCIAL SAFETY NET (GFSN)

GFSN provides insurance against crises, financing to mitigate their impact, and incentives for sound macro-economic policies to ensure long-term prosperity



GFSN layers and their functions



Source: IMF

GFSN firepower expansion (trillions of USD)

ESM IS THE LARGEST REGIONAL PLAYER IN THE GLOBAL FINANCIAL SAFETY NET

Future shocks make a strong case for enhanced cooperation between the regional rescue funds and the IMF



1

Annual **High-level Dialogue between RFA and IMF leaders** initiated by ESM, FLAR and AMRO in 2016 fosters policy exchanges

2

Technical cooperation: joint research projects and regular expert interactions help strengthen institutional capacity

3

Exploring complementarities between IMF' and RFA' toolboxes and lending frameworks

CROATIA ADOPTED THE EURO ON 1 JAN 2023

- By joining the euro area, Croatia also becomes eligible for membership in the ESM. This is expected to happen in early 2023.
- The minister of Finance of Croatia will become a member of the ESM Board of Governors, which takes all the important decisions regarding the ESM.
- Each Member contributes to the ESM authorised capital based on its respective share of the EU total population and gross domestic product (GDP). Croatia is expected to benefit from a temporary correction period of 12 years, during which its initial capital subscription to the ESM will be lower, thus leading to a temporarily lower paid-in capital contribution.
- Croatia will also benefit from the solidarity that comes with ESM membership, with access to financial assistance tools, which is a signal of protection for investors.





HIGHEST RATINGS FROM TOP 3 RATING AGENCIES

Ratings	Long Term	Short Term	Outlook	Commentary	
STANDARD & POOR'S	AAA	A-1+	Stable	<i>"Very strong capital adequacy, further reinforced by strong access to market funding and a robust liquidity position"</i>	<i>"ESM is a key pillar for the euro area's financial architecture, alongside institutions such as the EIB and the ECB "</i>
MOODY'S	Aaa	P-1	Stable	<i>"The credit profile of the ESM, the euro area's permanent crisis-resolution mechanism, reflects its substantial capital buffers, low leverage and preferred creditor status. Other credit strengths include its prudent capital and liquidity management, strong liquidity and the very strong support of its shareholders"</i>	<i>"The ESM has established a strong market presence since its inception. It has proved its ability to issue bonds in size within a short period of time."</i>
FitchRatings	AAA	F1+	Stable	<i>"The low risk business profile primarily reflects the ESM's excellent governance and importance of its public mandate, further enhanced by the role it is expected to play in the Banking Union. Fitch also assesses the ESM's operating environment as 'low' risk, based on the high credit quality and low political risk of the countries of operations."</i>	



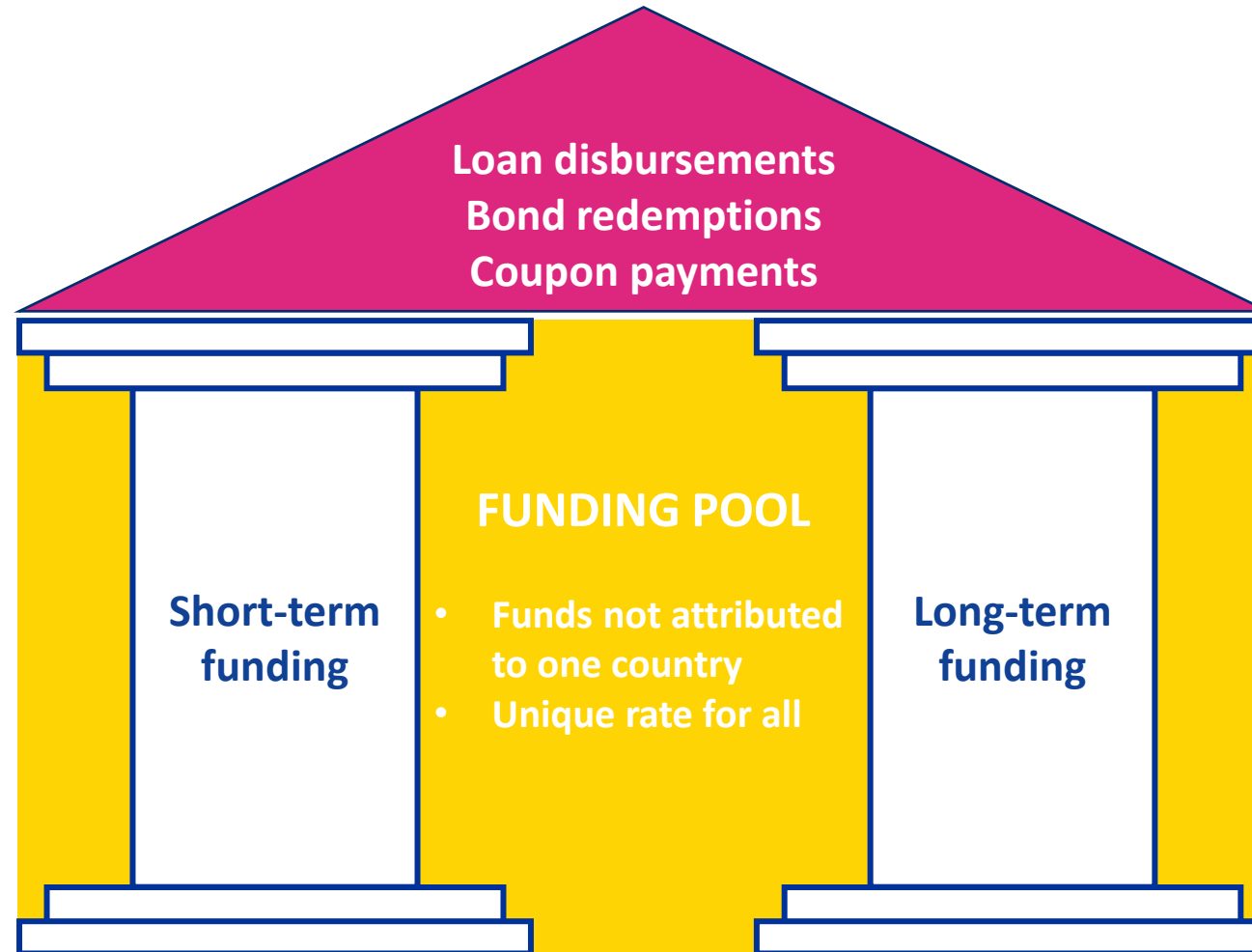
HIGH RATINGS FROM TOP 3 RATING AGENCIES

Ratings	Long Term	Short Term	Outlook	Commentary
STANDARD & POOR'S	AA	A-1+	Negative	<i>"The EFSF has benefited from low funding costs since its inception, and we expect it will continue to do so. Under the Basel framework, EFSF bonds are considered to have 0% risk weights. Furthermore, the European Central Bank (ECB) has included the EFSF in its expanded public-sector asset purchases program."</i>
MOODY'S	Aaa	P-1	Stable	<i>"The credit profile of the European Financial Stability Facility reflects primarily the strong support by its guarantors. Other credit strengths include the EFSF's prudent liquidity management and its strong liquidity position, supported by solid market access and a diversified investor base."</i>
FitchRatings	AA	F1+	N/A	<i>"EFSF's ratings rely on irrevocable and unconditional guarantees and over-guarantees provided by Euro Area Member States (EAMS) (...). They ensure EFSF debt is fully covered by guarantees and over guarantees (up to 165% of original guarantees) from the most highly-rated EAMS or by a cash reserve."</i>

ESM FUNDING PROGRAMME



FUNDING STRATEGY WITH TWO PILLARS



SHORT-TERM FUNDING

- **Bill market is an important tool to manage funding liquidity risk**
- **The ESM has a strategic minimum presence to ensure permanent access to its investor base**
- **In case of higher or lower liquidity needs, the ESM can adjust the bill volume**

Current Characteristics

Size	Min. target size of €1.1bn
Timing	1 st and 3 rd full week of the month (see calendar below)
Bidding period	08:00 - 12:30 CET
Features	Multiple price auction, each bill is rated by Moody's, Fitch and S&P
Access	Via ESM market group
Information	Bloomberg ESM pages, 4 {GO}, Buba {GO} and GAM {GO}

Auction dates for each half-year announced in advance *

2023	January	February	March	April	May	June
3-month	Tuesday 03	Tuesday 07	Tuesday 07	Tuesday 04	Tuesday 02	Tuesday 06
6-month	Tuesday 17	Tuesday 21	Tuesday 21	Tuesday 18	Tuesday 16	Tuesday 20

*12 month line discontinued as of 06 May 2022

LONG-TERM FUNDING



FLAGSHIP PRODUCTS

Highly liquid € benchmark bonds

- Flagship product with regular presence in all parts of the curve
- ESM up to longest loan with maximum limit of 45 years, EFSF<2070
- Use of taps to increase liquidity
- Syndication and auction



STRATEGIC PRODUCTS

USD market

- Strategic tool utilised subject to market conditions and funding needs
- Issuance format: RegS/144A
- All proceeds swapped back to euros

N-bonds

- Minimum issue size: €25 million
- Maturity: Maximum limit of 45 years, EFSF<2070
- Frequency: Issuance via reverse enquiry
- Distribution: Via ESM/EFSF market group members

The EFSF and ESM are included in the major SSA and government bond indices such as ICE BofAML, J.P. Morgan, iBoxx, FTSE and Barclays

ESM/EFSF FUNDING PROGRAMME

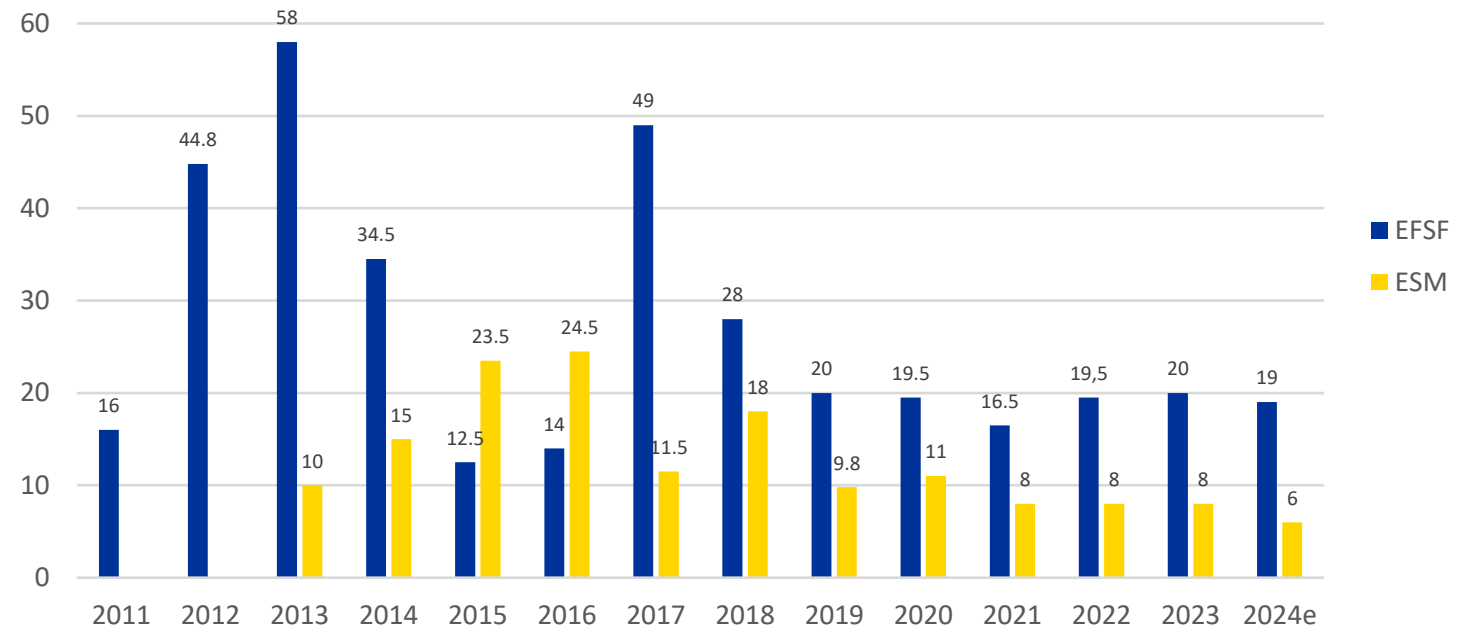
The combined funding for EFSF & ESM for 2023 will be

€28 billion

- €20 billion for EFSF
- €8 billion for ESM



EFSF / ESM Bond issuance (€ billion)*

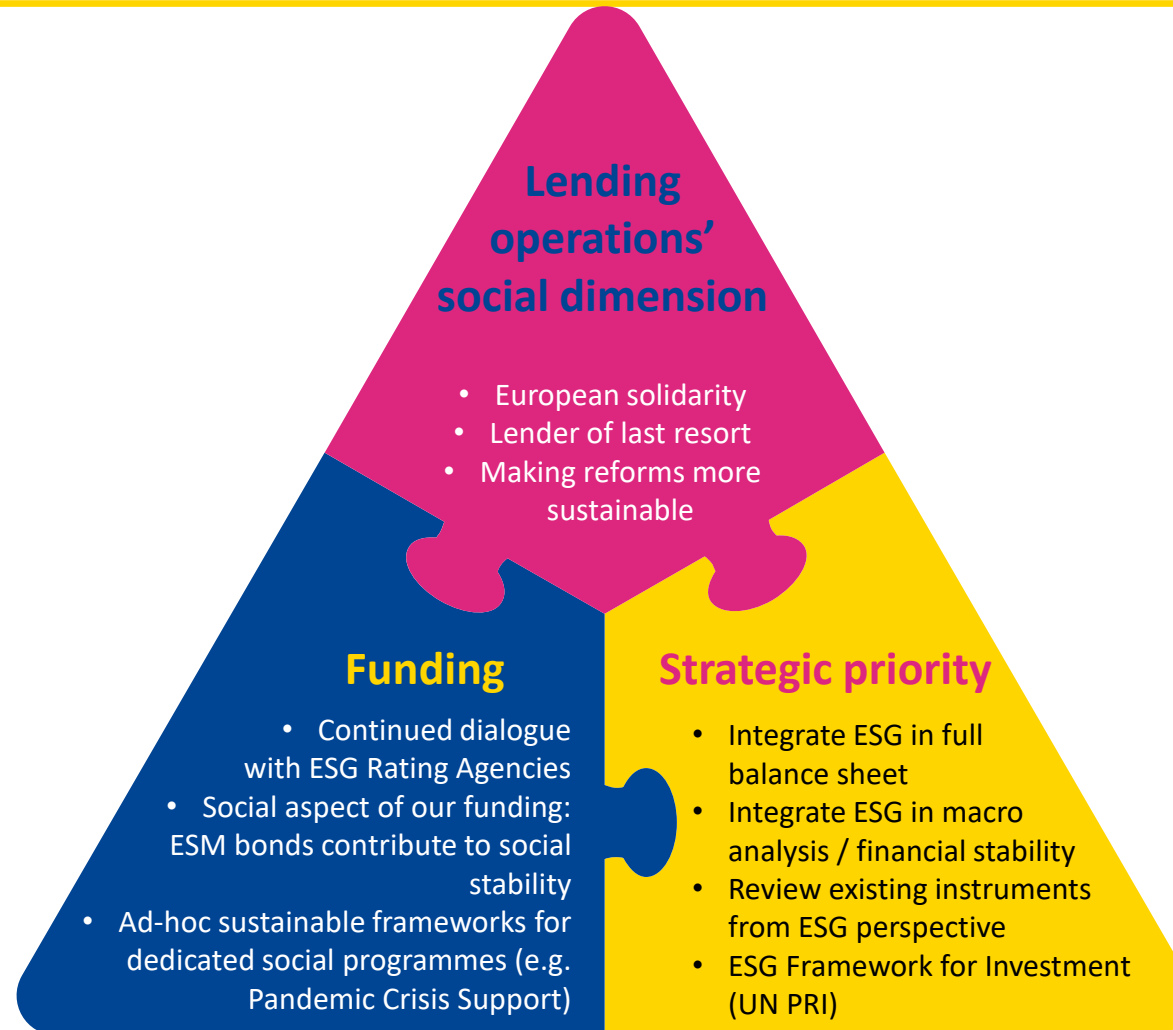


*Please note that figures are based on estimates and may vary. These figures do not include any cashless operations.

ESG AT THE ESM



THE ESM HAS A HOLISTIC APPROACH TO ESG



THE ESM IS ENGAGED IN ESG

Environmental



Since 2019 ESM publishes its annual **Carbon Footprint Report** as part of ongoing efforts to monitor, measure, and report the institution's environmental impact.



ESM continuously implements measures to improve the internal environmental impact. Environmental certificates from Luxembourg government encouraging our staff's environmentally conscious behaviour.

Social



ESM fosters a **diverse working environment**, the highest standards of **integrity**, as well as promotes a healthy **work-life balance**.

ESM **Pandemic Crisis Support** focused on social lending to finance health-related costs of Covid-19.



ESM set up a **Social Bond Framework** to finance this credit line with the issuance of Social Bonds.

Governance



Robust ESM governance framework ensuring strong accountability and transparency vis-à-vis the ESM shareholders and other stakeholders.

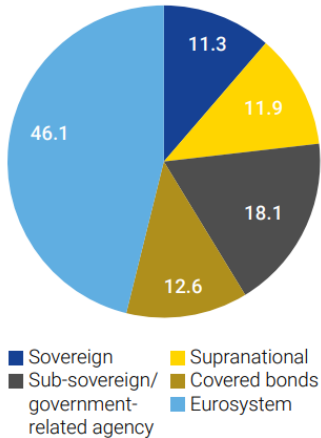
Reflected in the latest **upgrade Rating report** from Moody's



Three layers of audit oversight to ensure accountability of the ESM.

ESM AS AN INVESTOR

Asset class distribution of investments
(in %)



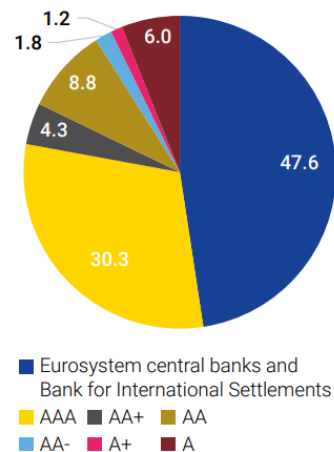
☐ The ESM is a significant investor in SSA space

- ✓ Unlike other peers, the ESM is not allowed to on-lend its paid-in capital.
- ✓ With €80.5bn paid in capital, highest capitalised IFI globally
- ✓ We invest in highly secured liquid fixed income assets rated “A” and above.

☐ ESM as a sustainable and responsible investor - ESG

- ✓ The ESM is currently building a responsible investment framework to assess the alignment of issuers with ESG criteria.
- ✓ Of our investments, €7.7bn are split between green, social and sustainability bonds (in addition to €0.3bn invested in pandemic bonds).

Ratings distribution of investments
(in %)



☐ PRI membership

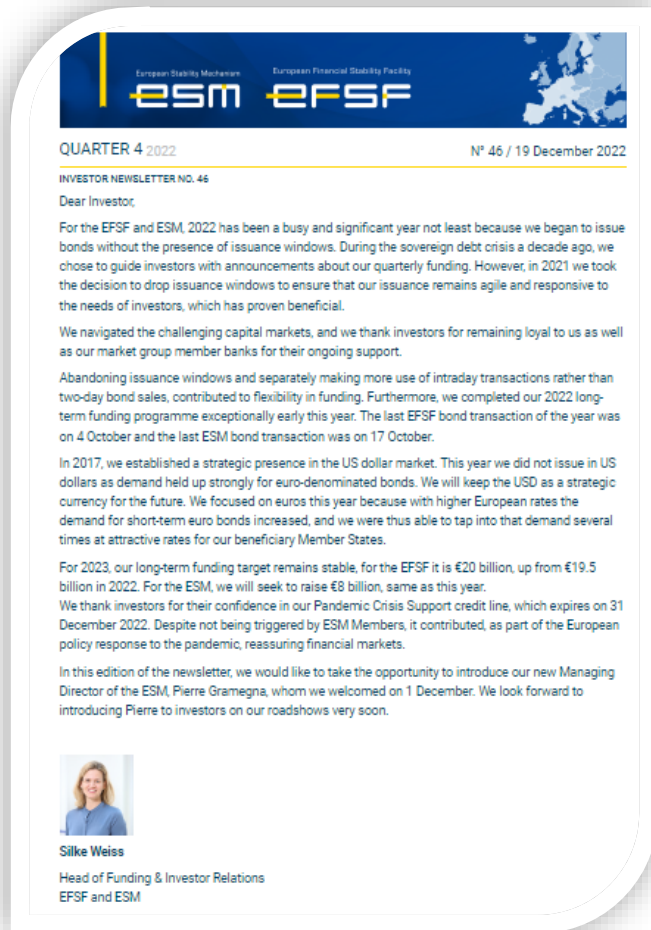
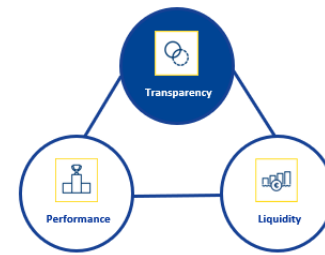
- ✓ In February 2020 the ESM became signatory of United Nations Principles for Responsible Investments.
- ✓ As a PRI signatory, the ESM will include ESG criteria within its investment processes.

WHY INVEST IN ESM AND EFSF ?



4

TRANSPARENCY: HIGH DEGREE OF COMMUNICATION TO INVESTORS



Newsletter
announces auctions
in advance for each
half-year

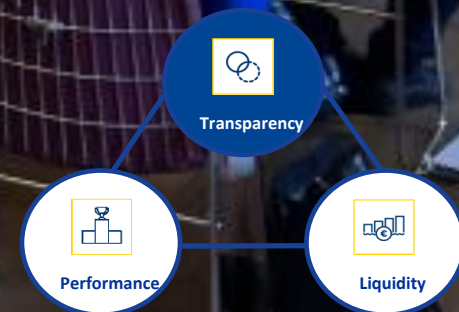
Any material changes
communicated in timely
manner to investor
community

High degree of
communication during
transactions RFP
announcement,
mandate

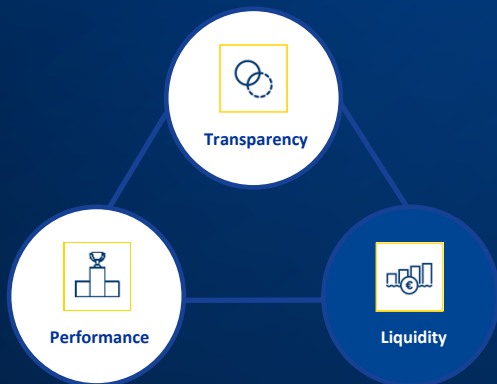
LinkedIn page where
we publish Funding and
Investor Relations latest
news and developments

TRANSPARENCY: HIGH DEGREE OF COMMUNICATION TO INVESTORS

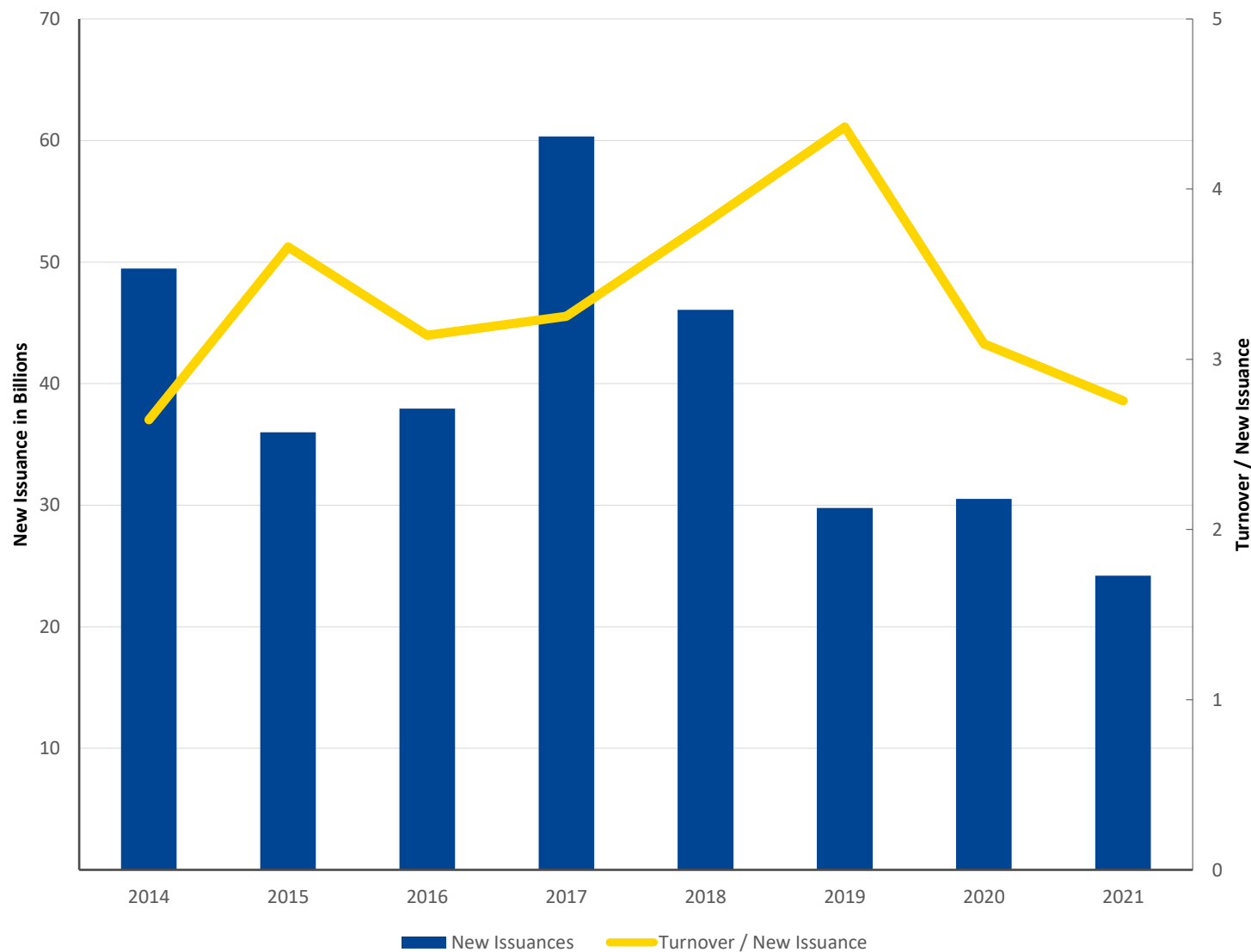
- ❑ The European Stability Mechanism in collaboration with the European Commission and the European Investment Bank host an annual **Capital Markets Seminar** addressed to worldwide investors.
- ❑ This flagship event is a great opportunity to present the latest developments at the three institutions and in the EU capital markets, with a special focus on the investor perspective.
- ❑ The event gathers speakers that include both C-Level and operational leaders from the host institutions and other capital markets participants.



LIQUIDITY: A KEY ROLE IN THE FUNDING STRATEGY

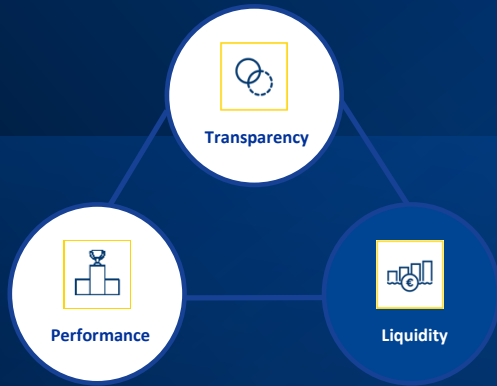


ESM & EFSF Bond Issuances and Turnover



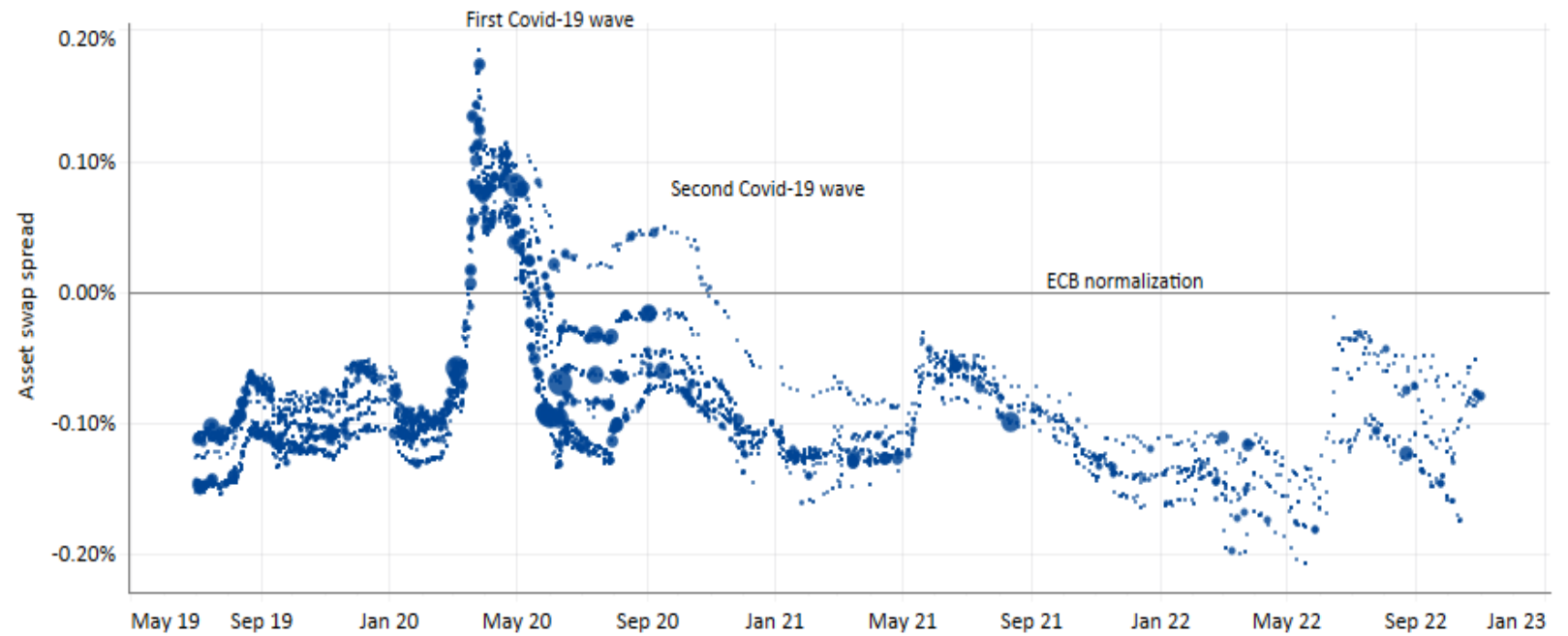
NB: This data is sourced and compiled from trading activities in ESM / EFSF bonds from the market group banks. The data is compiled in a Harmonised Reporting Format used by all Euro Governments and Debt Management Offices.

LIQUIDITY IN STRESS TIMES

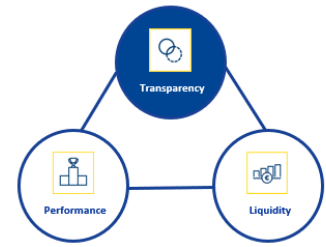


Liquidity in EFSF/ESM bonds has proven to be resilient even in stress times, after the peaks of the Covid-19 crisis and following the ECB normalisation

EFSF/ESM bond trades – volumes and asset swap spreads



SUPPORTED BY A STRONG MARKET GROUP



ESM/EFSS Market Group comprises the following 33 international institutions:

Americas



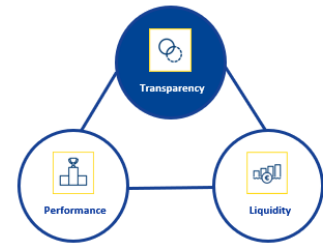
Europe



Asia



PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

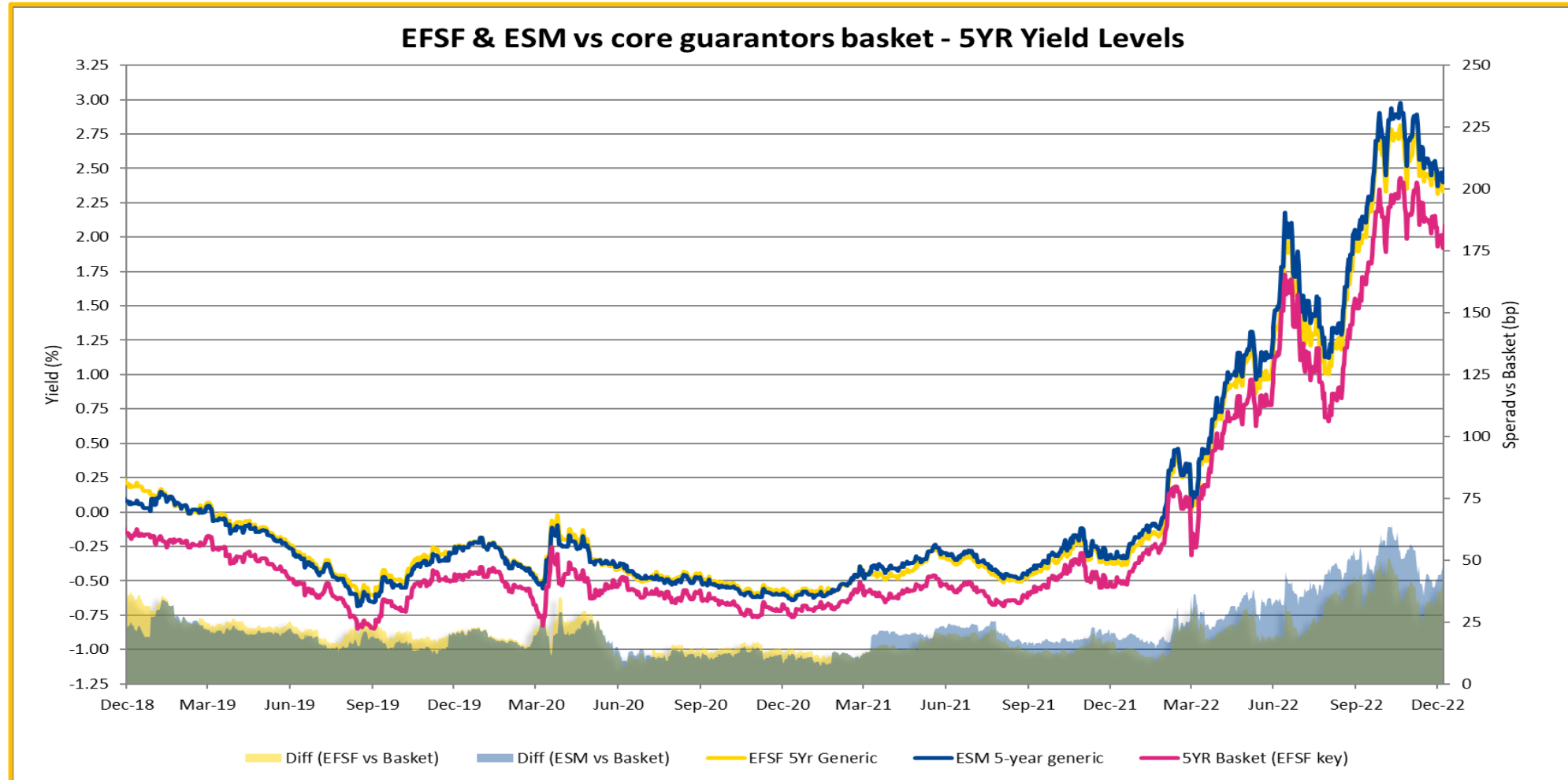


ESM's issuances benefit from a robust capital structure

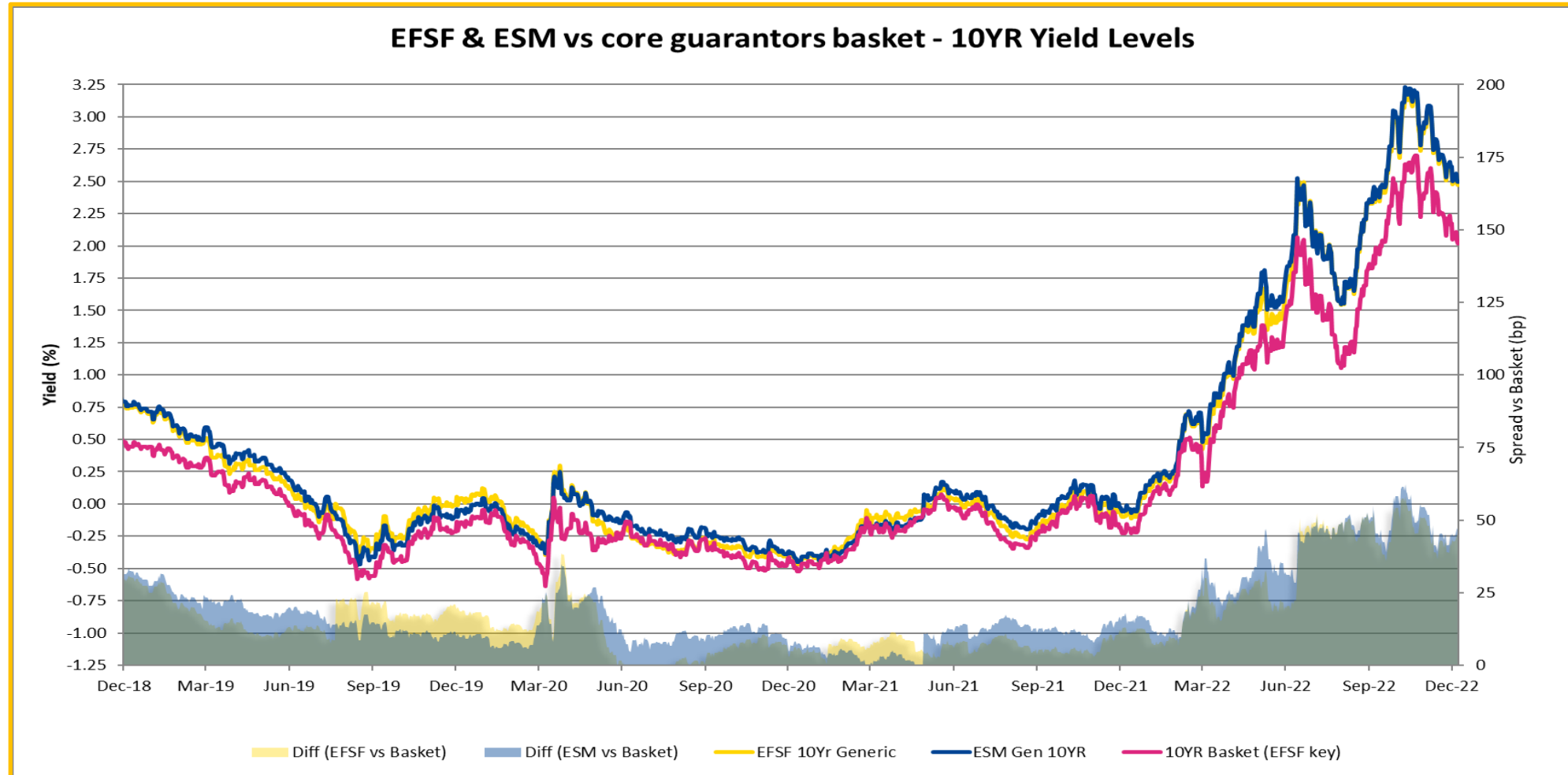
EFSF's issuances benefit from a solid structure with an over-guarantee mechanism from the six best-rated euro area countries

Core EFSF guarantors	Adjusted Cont. Key	Over-guaranteed Cont. Key
Germany	29.13%	46.74%
France	21.88%	35.10%
The Netherlands	6.13%	9.84%
Austria	2.99%	4.79%
Finland	1.93%	3.09%
Luxembourg	0.27%	0.43%
Total		100%

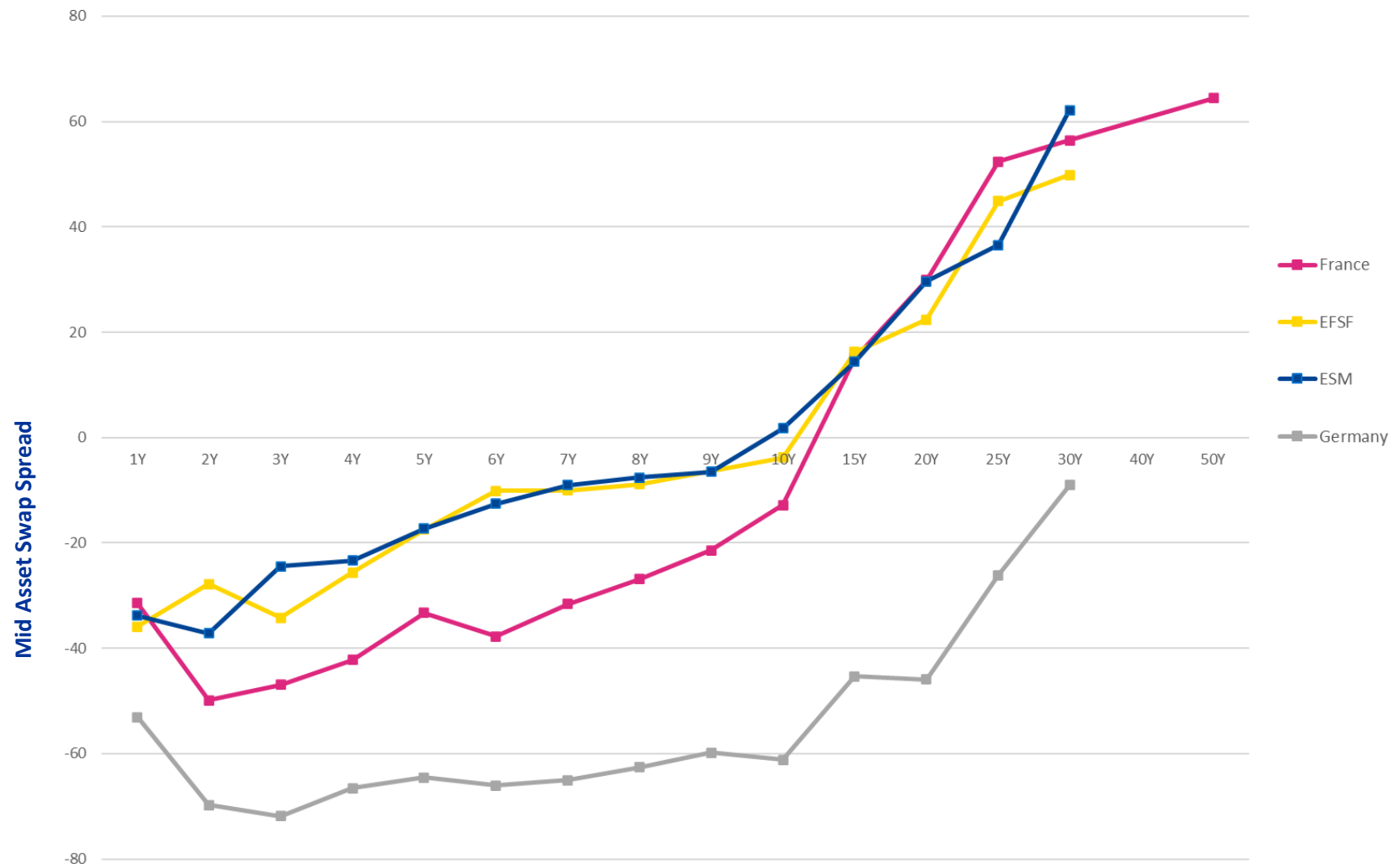
PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE



PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE



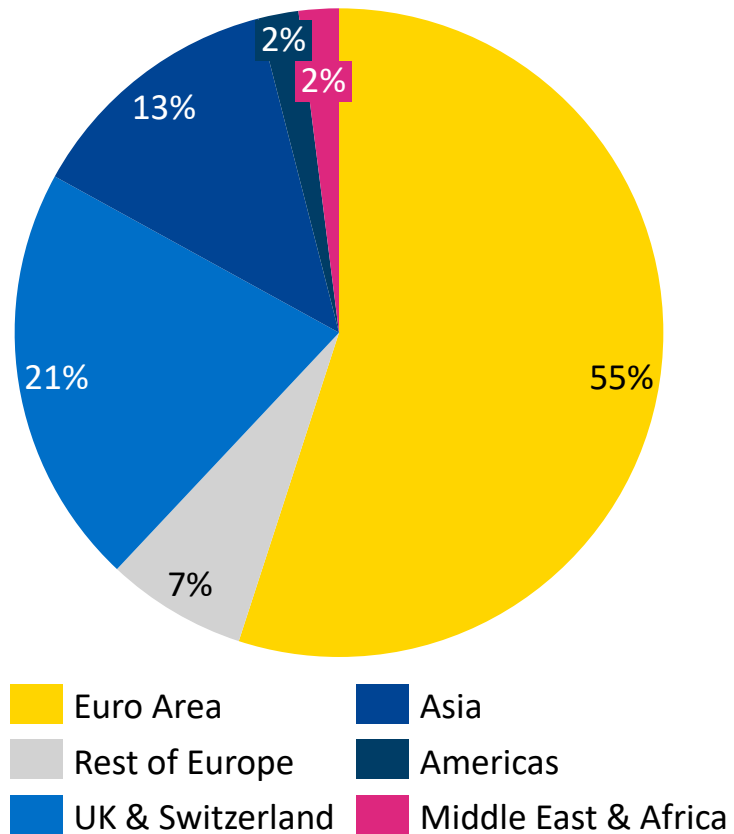
EFSF & ESM VS FRANCE AND GERMANY BOND CURVES



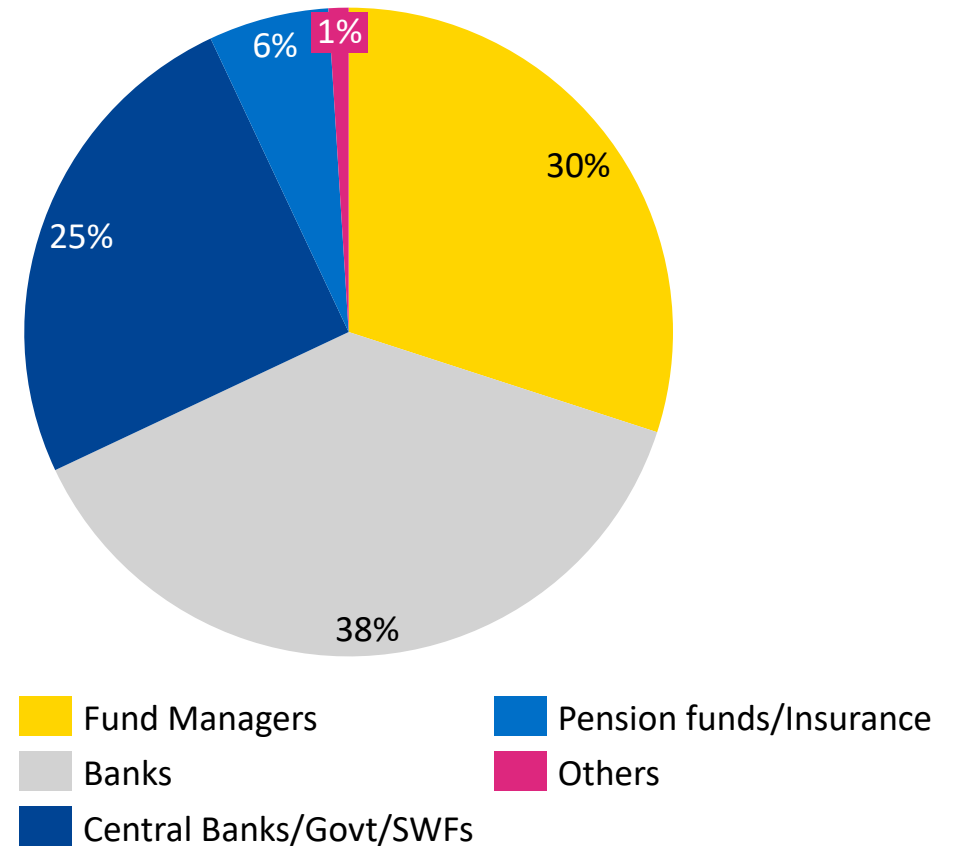
Source: Bloomberg, as of 19 December 2022

EFSF AND ESM: SOLID AND DIVERSIFIED INVESTOR BASE

Geographical Breakdown

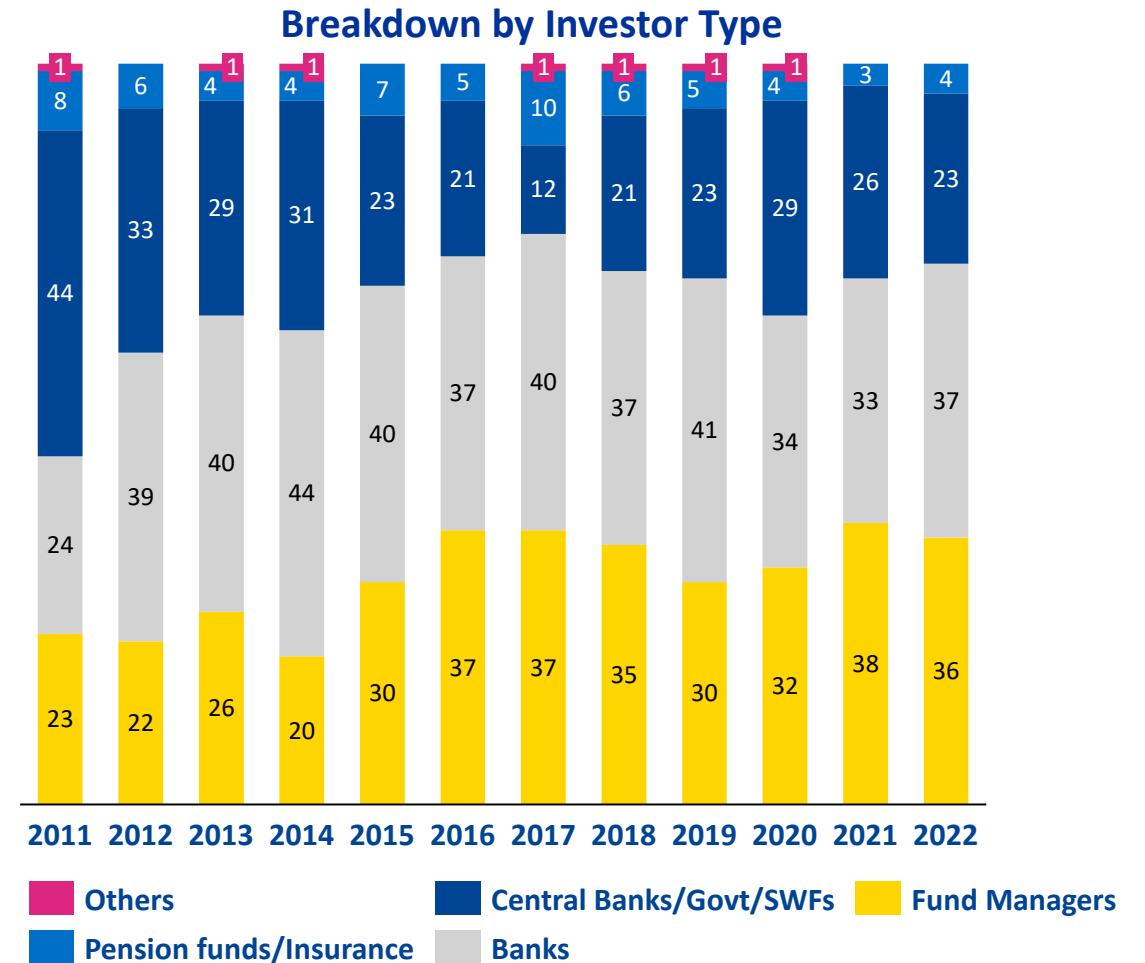
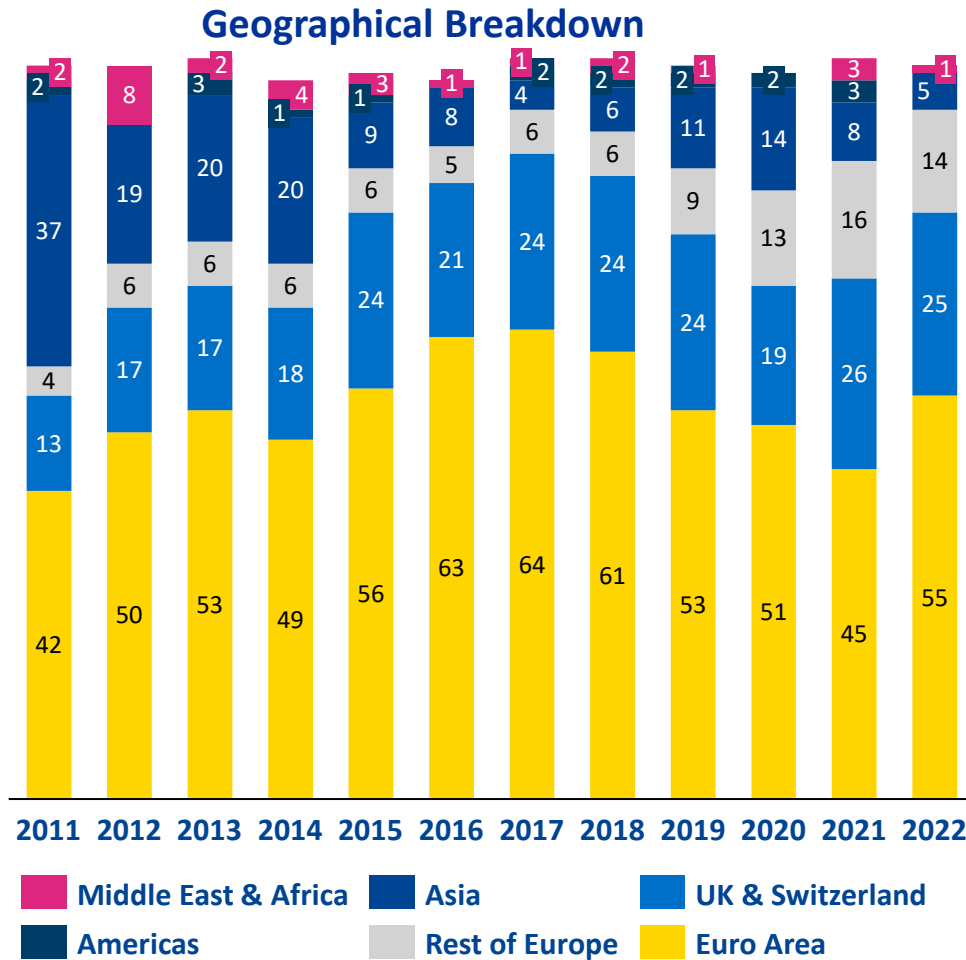


Breakdown by Investor Type



*Total breakdown includes all EFSF & ESM syndicated bond issues at time of issue. Placements by auction are not included. As at December 2022. Data source: ESM

ESM & EFSF: ANNUAL INVESTOR BREAKDOWN



*2011 & 2012 EFSF Only

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